Financial Statements of

# BROCK UNIVERSITY

Year ended April 30, 2006

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Financial Statements

Year ended April 30, 2006

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http://www.fin.gov.on.ca/english/publications/salarydisclosure/2006/univer06.html

KPMG LLP
Chartered Accountants
One St. Paul Street Suite 900
PO Box 1294 Stn Main
St. Catharines ON L2R 7A7

Telephone (905) 685-4811
Telefax (905) 682-2008
www.kpmg.ca

# AUDITORS' REPORT

The Trustees of Brock University

We have audited the statement of financial position of Brock University as at April 30, 2006 and the statements of operations and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the University as at April 30, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

St. Catharines, Canada
June 29, 2006

# BROCK UNIVERSITY

Statement of Financial Position

April 30, 2006, with comparative figures for 2005
(in thousands of dollars)

| | 2006 | 2005 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and marketable securities (note 2) | $ 75,640 | $ 32,714 |
| Accounts receivable | 4,453 | 4,398 |
| Government grants receivable | 1,062 | 1,120 |
| Prepaid expenses and other assets | 975 | 1,824 |
| Inventories | 2,230 | 1,627 |
| | 84,360 | 41,683 |
| Restricted investments, at cost (note 3): | | |
| Cash | 2,602 | 5,229 |
| Marketable securities | 33,617 | 23,917 |
| | 36,219 | 29,146 |
| Capital assets (note 4) | 169,813 | 161,904 |
| Deferred charges (note 5) | 3,152 | - |
| | $ 293,544 | $ 232,733 |
| **Liabilities and Net Assets** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 21,803 | $ 17,872 |
| Deferred revenue | 7,292 | 7,230 |
| Deferred contributions (note 6) | 5,652 | 4,075 |
| Current portion of long-term debt (note 7) | 624 | 11,763 |
| | 35,371 | 40,940 |
| Long-term debt (note 7) | 29,552 | 72,134 |
| Debentures payable (note 8) | 93,000 | - |
| Deferred capital contributions (note 9) | 67,196 | 63,108 |
| Employee future benefits obligation (note 10) | 5,039 | 5,469 |
| Net assets: | | |
| Invested in capital assets (note 11) | 16,109 | 18,568 |
| Endowments (note 12) | 26,345 | 21,337 |
| Internally restricted (note 13) | 19,907 | 12,639 |
| Unrestricted | 1,025 | (1,462) |
| | 63,386 | 51,082 |
| Commitments (note 14) | | |
| Contingencies (note 17) | | |
| | $ 293,544 | $ 232,733 |

See accompanying notes to financial statements

On behalf of the Board:

______________________________ Trustee

______________________________ Trustee

# BROCK UNIVERSITY

Statement of Operations

Year ended April 30, 2006, with comparative figures for 2005
(in thousands of dollars)

| | 2006 | 2005 |
|---|---|---|
| Revenues: | | |
| Government grants for general operations | $ 77,032 | $ 68,934 |
| Research grants for restricted purposes | 12,874 | 15,888 |
| Grants and other revenues for restricted purposes | 4,356 | 6,200 |
| Student fees | 73,418 | 69,162 |
| Ancillary operations | 24,689 | 23,947 |
| Investment income (note 15) | 1,822 | 1,174 |
| Sundry | 7,611 | 8,239 |
| Amortization of deferred capital contributions (note 9) | 3,296 | 4,203 |
| | 205,098 | 197,747 |
| Expenses: | | |
| Academic, library and other direct support | 101,150 | 92,326 |
| Administrative and advancement | 9,242 | 8,856 |
| Facilities management | 15,796 | 14,776 |
| Student support and other services | 13,610 | 13,621 |
| Research | 12,874 | 15,888 |
| Student aid and awards | 10,198 | 9,328 |
| Ancillary operations | 20,058 | 19,743 |
| Amortization of ancillary capital assets | 2,246 | 2,387 |
| Amortization of other capital assets | 9,074 | 10,637 |
| Amortization of deferred charges | 30 | - |
| Expenses related to interest rate swaps (note 8) | 3,524 | - |
| | 197,802 | 187,562 |
| Excess of revenues over expenses | $ 7,296 | $ 10,185 |

See accompanying notes and Schedule I to financial statements.

# BROCK UNIVERSITY

Statement of Changes in Net Assets

Year ended April 30, 2006, with comparative figures for 2005
(in thousands of dollars)

| | Invested in capital assets (note 11) | Endowments (note 12) | Internally restricted (note 13) | Unrestricted | 2006 Total | 2005 Total |
|---|---|---|---|---|---|---|
| Net assets, beginning of year | $ 18,568 | $ 21,337 | $ 12,639 | $ (1,462) | $ 51,082 | $36,764 |
| Excess of revenues over expenses (expenses over revenues) | (8,024) | - | - | 15,320 | 7,296 | 10,185 |
| Change in internally restricted net assets | - | - | 7,268 | (7,268) | - | - |
| Net change in investment in capital assets | 5,565 | - | - | (5,565) | - | - |
| Investment income (loss) charged directly to endowment | - | 919 | - | - | 919 | (93) |
| Endowment contributions | - | 4,089 | - | - | 4,089 | 4,226 |
| Balance, end of year | $ 16,109 | $ 26,345 | $ 19,907 | $ 1,025 | $ 63,386 | $ 51,082 |

See accompanying notes to financial statements.

# BROCK UNIVERSITY
Statement of Cash Flows

Year ended April 30, 2006, with comparative figures for 2005
(in thousands of dollars)

| | 2006 | 2005 |
|---|---|---|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Excess of revenues over expenses | $ 7,296 | $ 10,185 |
| Add (deduct) non-cash items: | | |
| Amortization of capital assets | 11,320 | 13,024 |
| Amortization of deferred capital contributions | (3,296) | (4,203) |
| Amortization of deferred charges | 30 | - |
| | 15,350 | 19,006 |
| Net change in non-cash working capital balances related to operations: | | |
| (Increase) Decrease in accounts receivable | (55) | 1,313 |
| Decrease in government grants receivable | 58 | 992 |
| (Increase) Decrease in prepaid expenses and other assets | 849 | (411) |
| (Increase) Decrease in inventories | (603) | 9 |
| Increase in accounts payable and accrued liabilities | 3,931 | 3,855 |
| Increase (Decrease) in deferred revenue | 62 | 1,151 |
| Increase (Decrease) in deferred contributions | 1,577 | (2,980) |
| Net change in employee future benefits obligations | (430) | 27 |
| Cash provided by operating activities | 20,739 | 22,962 |
| Investing and financing activities: | | |
| Purchase of investments, net | (7,073) | (7,656) |
| Purchase of capital assets | (19,229) | (10,197) |
| Contributions restricted for capital purchases | 7,384 | 6,682 |
| Repayment of long-term debt | (53,721) | (3,500) |
| Long-term debt financing | - | 5,731 |
| Proceeds on debenture issue | 93,000 | - |
| Investment income earned on externally restricted endowments for capital preservation | 919 | - |
| Investment income shortfall on endowments | - | (93) |
| Endowment contributions | 4,089 | 4,226 |
| Payment of deferred financing costs | (3,182) | - |
| Cash used in investing and financing activities | 22,187 | (4,807) |
| Increase in cash position | 42,926 | 18,155 |
| Cash, beginning of year | 32,714 | 14,559 |
| Cash, end of year | $ 75,640 | $ 32,714 |

Supplemental cash flow information:

| | 2006 | 2005 |
|---|---|---|
| Interest paid during the year | $ 5,497 | $ 4,845 |

See accompanying notes to financial statements.

Brock University (the "University") was incorporated as a university under the Brock University Act. The University is dedicated to providing programs in broadly-based undergraduate education in the arts and sciences and in professional and interdisciplinary programs, and to offer graduate studies in a broad range of disciplines.

These financial statements reflect the assets, liabilities, net assets, revenue, expenses and other transactions of the operations of the University. Accordingly, these financial statements include the academic, administrative and other operating expenses funded by fees, grants, donations and other general revenue, endowment funds, and the ancillary operations.

The University is a charitable organization and, as such, is exempt from income taxes under the Income Tax Act (Canada).

## 1. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies are summarized below:

(a) Cash and cash equivalents:

Cash equivalents are held for the purpose of meeting short-term cash commitments, are readily convertible to a known amount of cash and are subject to an insignificant amount of risk of changes in value. Cash equivalents include investments with maturities of three months or less from the date of acquisition. Cash and cash equivalents are valued at cost, which approximates market value.

(b) Inventories:

Inventories are stated at the lower of cost (weighted average cost) and net realizable value.

(c) Investments:

Investments, which management intends to hold for the foreseeable future, are stated at amortized cost, adjusted to recognize any declines in value that are other than temporary.

(d) Deferred Charges:

Deferred charges represent the unamortized cost of the issue of the debenture. Amortization is provided on a straight-line basis, over the term of the related debt and is included in the amortization of deferred charges for the year.

**1. Significant accounting policies (continued):**

(e) Capital assets:

Purchased capital assets are recorded at cost less accumulated amortization. Contributions of capital assets are capitalized at fair market value at the date of contribution. Capital assets are amortized on a straight-line basis using the following annual rates:

| Asset | Rate |
|---|---|
| Buildings | 2.5% to 10% |
| Furnishings and equipment | 10% to 33 1/3% |
| Library books | 20% |

Construction costs are capitalized as work progresses and amortization commences as work is substantially completed.

(f) Works of Art:

Contributed works of art are recorded as revenue and expense, at fair market value, at the date of contribution. If the fair market value is not determinable, the contribution is recorded at a nominal amount. Artwork purchases are expensed as acquired.

**1. Significant accounting policies (continued):**

(g) Endowments:

Contributions restricted for endowments consist of restricted donations received by the University and donations internally designated by the Board of Trustees, in the exercise of its discretion. The endowment principal is required to be maintained intact. The investment income generated from endowments must be used in accordance with the various purposes established by donors or the Board of Trustees. The University ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purpose for which they were provided.

Investment income on endowments that is available for spending at the discretion of the University or is available for spending as the conditions established by the donor have been met has been recorded in the statement of operations and changes in net assets. University policy has been established with the objective of protecting the real value of the endowments by having an overall investment objective for endowments to earn, over time, a rate of return at least equal to the total of inflation plus spending and the costs of administering the funds. Underlying the investment objective is a spending rate that limits allocations to an estimated long-term rate of investment return. The spending rate is reviewed annually based on a moving three year average of the investment pool period. Investment income in excess of administration costs and spending allocations will be added to capital, up to the rate of inflation. Any additional excess will be set aside in a stabilization reserve that can be drawn upon in years when income is less than the spending allocated. In the case of new endowments where the pro-rata annual investment return less administrative costs is lower than the spending allocation, the spending on these endowments may be temporarily suspended in order to preserve donor capital.

(h) Revenue recognition:

The University follows the deferral method of accounting for contributions, which include donations and government grants. Unrestricted contributions are recognized as revenue when received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured. Unrestricted donations are recognized on a cash basis since pledges are not legally enforceable claims. Contributions externally restricted for purposes other than endowment are deferred and recognized as revenue in the year in which the related expenses are recognized. Endowment contributions are recognized as direct increases in net assets in the year in which they are received. Student fees are recognized as revenue when courses and seminars are held. Sales and services revenue is recognized at the point of sale or when the service has been provided.

(i) Contributed services and materials:

Volunteers contribute an indeterminable number of hours per year. Because of the difficulty of determining their fair value, contributed services and materials are not recognized in these financial statements.

**1. Significant accounting policies (continued):**

(j) Employee future benefits:

The University provides pension benefits to employees primarily through a hybrid pension plan. Under this arrangement, the University and employees are required to make contributions based on a specified percentage of the employee's earnings. The amount of pension benefits provided to employees is based upon the accumulation of contributions and investment earnings thereon, when the employee retires, subject to a guaranteed minimum benefit amount. As the minimum benefit guarantee is an insignificant portion of the plan, the plan is essentially a defined contribution arrangement. The University records the cost of providing this benefit equal to its requirement to make contributions on an annual basis. Certain faculty are members of the Teachers' Superannuation Fund, a multi-employer defined benefit plan. Contributions to this plan are expensed when due.

The University also has a number of defined benefit programs that provide employees with benefits upon retirement or cessation of active service. The cost of these programs is determined on an actuarial basis using the projected benefit method prorated on services and management's best estimates regarding assumptions about a number of future conditions including salary changes, withdrawals, mortality rates and expected health care costs. The discount rate used to determine service cost and liabilities is based on the prevailing market interest rates on long-term fixed income securities with maturities that match the expected maturities of the obligations. The excess of the cumulative net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the expected average remaining service period of active employees.

(k) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for the period reported. Actual results could differ from those estimates.

(l) Pledges:

Pledges are recorded as revenue on a cash basis and accordingly are not set up as assets in the financial statements. The total amount of pledges outstanding is approximately $2,756,000 at April 30, 2006 and is expected to be received as follows:

| (000's) | |
|---|---|
| 2007 | $ 1,094 |
| 2008 | 994 |
| 2009 | 319 |
| 2010 | 265 |
| Thereafter | 84 |
| | $ 2,756 |

**2. Cash and marketable securities:**

The book and market values of the cash and marketable securities are as follows:

| (000's) | | 2006 | | 2005 |
|---|---|---|---|---|
| | Book value | Market value | Book value | Market value |
| Cash and cash equivalents | $ 14,638 | $ 14,638 | $ 32,714 | $ 32,714 |
| Canada T-Bills | 4 | 5 | - | - |
| Canadian equities | 36,496 | 37,837 | - | - |
| | 51,138 | 52,480 | 32,714 | 32,714 |
| Held for future capital projects | | | | |
| Cash and cash equivalents | 24,502 | 24,502 | - | - |
| | $ 75,640 | $ 76,982 | $ 32,714 | $ 32,714 |

**3. Restricted investments:**

The book and market values of investments are as follows:

| (000's) | | 2006 | | 2005 |
|---|---|---|---|---|
| | Book value | Market value | Book value | Market value |
| Invested for endowments | | | | |
| Cash and cash equivalents | $ 2,602 | $ 2,602 | $ 5,229 | $ 5,259 |
| Bonds | 1,382 | 1,416 | 556 | 584 |
| Canadian equities | 182 | 173 | 229 | 221 |
| McLean Budden balanced Growth Fund | 22,179 | 25,928 | 15,323 | 17,949 |
| | 26,345 | 30,119 | 21,337 | 24,013 |
| Invested for unspent capital projects | | | | |
| Money market pooled fund | 3,177 | 3,177 | 3,669 | 3,669 |
| Invested for future loan repayments | | | | |
| Bonds | 3,978 | 4,550 | 3,640 | 4,466 |
| McLean Budden fixed income fund | 2,719 | 2,704 | 500 | 500 |
| | $ 36,219 | $ 40,550 | $ 29,146 | $ 32,648 |

## 4. Capital assets:

| (000's) | | | 2006 | | | 2005 |
|---|---|---|---|---|---|---|
| | Cost | Accumulated amortization | Net book value | Cost | Accumulated amortization | Net book value |
| Land | $ 1,865 | $ | $ 1,865 | $ 1,295 | $ | $ 1,295 |
| Buildings | 240,659 | 83,908 | 156,751 | 224,680 | 76,716 | 147,964 |
| Furnishings and equipment | 52,015 | 44,525 | 7,490 | 49,894 | 42,138 | 7,757 |
| Library books | 36,343 | 32,636 | 3,707 | 35,826 | 30,937 | 4,888 |
| | $ 330,882 | $ 161,069 | $ 169,813 | $ 311,695 | $ 149,791 | $ 161,904 |

Included in buildings is $10,696,654 (2005 - $2,937,260) of construction in progress that was not amortized during the year.

The increase in net book value of capital assets is due to the following:

| (000's) | 2006 | 2005 |
|---|---|---|
| Balance, beginning of year | $ 161,904 | $ 164,731 |
| Purchase of capital assets funded by deferred capital contributions | 7,926 | 3,768 |
| Donation of building | - | 200 |
| Purchase of capital assets internally financed | 3,292 | 498 |
| Purchase of capital assets financed by long-term debt | 8,011 | 5,731 |
| Amortization of capital assets | (11,320) | (13,024) |
| Balance, end of year | $ 169,813 | $ 161,904 |

## 5. Deferred charges:

Deferred charges include deferred refinancing costs, bond forward costs, and costs relating to arranging additional financing and are charged against earnings over the term of the financing arrangements.

| (000's) | 2006 | 2005 |
|---|---|---|
| Bond forward costs | $ 2,725 | $ - |
| Refinancing costs | 372 | - |
| Other costs | 85 | - |
| | 3,182 | - |
| Less: Accumulated amortization | 30 | - |
| Balance, end of year | $ 3,152 | $ - |

## 6. Deferred contributions:

Deferred contributions represent unspent externally restricted grants and donations for research and other restricted purposes. The changes in the deferred contributions balance are as follows:

| (000's) | 2006 | 2005 |
|---|---|---|
| Balance, beginning of year | $ 4,075 | $ 7,055 |
| Grants, donations and other expendable funds | 15,412 | 17,266 |
| Amounts recorded as revenue during the year | (13,835) | (20,246) |
| Balance, end of year | $ 5,652 | $ 4,075 |

Pursuant to an agreement among the University, the Brock University Students' Centre, Inc. and the Brock University Students' Union, Inc., a Student Centre dedicated to servicing the cultural, educational, recreational, social; and organizational interests of the student body of the University on a not-for-profit basis was constructed. The Student Centre and the land on which it is situated are owned by the University. The Brock University Students' Centre, Inc. operates the Student Centre. Substantially all the costs of construction and the interest on the Student Centre bank loan (note 5) are being covered by a special contribution of $10 per course per student. To date, an amount of $5,598,267 has been contributed by students for the Student Centre. In fiscal 2006, an amount of $720,267 (2005 - $950,000) is included in the grants and donations for restricted purposes.

## 7. Long-term debt:

| (000's) | 2006 | 2005 |
|---|---|---|
| Earp student residence: | | |
| 7.2% loan with certain residences and investments pledged as security, with monthly blended payments of principal and interest of $90,570, due October 1, 2028 | $ 12,093 | $ 12,301 |
| Lowenberger student residence: | | |
| 7.2% loan with certain residences and investments pledged as security, with monthly blended payments of principal and interest of $71,873, due October 1, 2028 | 9,597 | 9,762 |
| Village I student residence: | | |
| 9.26% mortgage loan with semi-annual payments of interest only of $382,577, due December 1, 2009 | 8,263 | 8,263 |
| Student centre: | | |
| Non-revolving loan with annual payments of principal of $220,000 thereafter, plus accrued interest at prime rate (5.75% as at April 30, 2006), due September 30, 2013 | 223 | 2,123 |
| Decew student residence | - | 1,266 |
| Lowenberger student residence | - | 5,625 |
| Lowenberger student residence | - | 5,132 |
| Vallee student residence | - | 5,500 |
| Village II student residence | - | 1,100 |
| Village III student residence | - | 3,300 |
| Village renovations | - | 550 |
| Co-generation facility | - | 2,500 |
| Hamilton campus | - | 2,357 |
| Brock 2000 Academic Buildings and Student and Community Health & Fitness Centre | - | 9,468 |
| Brock 2000 Academic Buildings and Student and Community Health & Fitness Centre | - | 9,000 |
| Parking expansion | - | 3,150 |
| MacKenzie Chown Addition | - | 2,500 |
| | 30,176 | 83,897 |
| Less current portion | 624 | 11,763 |
| Total | $ 29,552 | $ 72,134 |

(a) Offsetting investments:

The University has purchased strip bonds which are due over a period of time from 2009 to 2010, with a maturity value of $5,242,375 and a current discounted value of $3,977,514. In addition, the University purchased McLean Budden short-term fixed income funds with a market value of $2,704,058 (2005 - $500,647). It is management's intention that the ultimate proceeds of these investments will be applied against long-term debt for the Village 1 Student residence (see note 3).

## 7. Long-term debt (continued):

(b) Debt maturities:

The following are the future minimum annual debt principal repayments due over the next five fiscal years and thereafter:

| (000's) | | |
|---|---|---|
| 2007 | $ | 624 |
| 2008 | | 430 |
| 2009 | | 462 |
| 2010 | | 8,760 |
| 2011 | | 534 |
| Thereafter | | 19,366 |
| | $ | 30,176 |

(c) Bank credit facility:

The University has available operating lines of credit totaling $5,000,000 which were not utilized at April 30, 2006. The interest rate on the operating line of credit, when drawn, is prime less 0.375% (the prime rate at April 30, 2006 is 5.75%) and amounts are due on demand.

(d) A number of the loans (as described above) were discharged as part of the issuance of debentures in the amount of $93,000,000 during the year (note 8).

## 8. Debenture payable:

| (000's) | | 2006 | | 2005 |
|---|---|---|---|---|
| Debenture payable, bearing interest at 4.967%, $2,309 payable Interest only semi-annually, due December 14, 2045 | $ | 93,000 | | - |
| | $ | 93,000 | $ | - |

A sinking fund will be established for the repayment of the $93,000,000 at maturity.

Expenses related to interest rate swaps were incurred in the amount of $3,524,000 on issue of the debenture payable comprised of loss on cancellation of existing interest rate swaps of $2,821,000 and write-off of forward costs for non-utilized interest rate hedge of $703,000.

## 9. Deferred capital contributions:

Deferred capital contributions represent the unamortized amount of donations and grants received for the purchase of capital assets. The amortization of deferred capital contributions is recorded as revenue in the statement of operations and changes in net assets. The changes in the deferred capital contributions balance are as follows:

| (000's) | 2006 | 2005 |
|---|---|---|
| Balance, beginning of year | $ 63,108 | $ 60,629 |
| Less amortization of deferred capital contributions | (3,296) | (4,203) |
| Add contributions restricted for capital purposes | 7,384 | 6,682 |
| Balance, end of year | $ 67,196 | $ 63,108 |

The balance of unamortized capital contributions related to capital assets consists of the following:

| (000's) | 2006 | 2005 |
|---|---|---|
| Unamortized capital contributions used to purchase assets | $ 64,069 | $ 59,439 |
| Unspent capital contributions | 3,127 | 3,669 |
| | $ 67,196 | $ 63,108 |

## 10. Employee future benefits:

The University has a number of defined benefit and defined contribution plans providing pension and other future benefits to most of its employees. Non-pension benefits include retiree medical and life insurance benefits until the age of 65, accumulating sick leave benefits and pre-retirement leave benefits.

The reconciliation of the funded status of the defined benefit plans to the amounts recorded in the financial statements is as follows:

| | Other benefit plan | |
|---|---|---|
| (000 ' s) | 2006 | 2005 |
| Accrued benefit obligation | $ 6,220 | $ 6,732 |
| Fair value of plan assets | - | – |
| Funded status - plan surplus (deficit) | (6,220) | (6,732) |
| Balance of unamortized amounts | 1,181 | 1,263 |
| Accrued benefit liability | (5,039) | (5,469) |
| Valuation allowance | | – |
| Accrued benefit liability, net of valuation allowance | $ (5,039) | $ (5,469) |

## 10. Employee future benefits (continued):

The expense for the University's benefit plans is as follows:

| (000's) | 2006 | 2005 | 2006 | 2005 |
|---|---|---|---|---|
| | Pension benefit plans | | Other benefit plans | |
| Defined benefit plans | $ - | $ - | $ 594 | $ 1,249 |
| Non-pension benefit plans | - | - | 1,024 | 1,222 |
| Defined contribution plan | 7,003 | 6,380 | - | - |
| Contributions to a multi-employer teachers plan | 99 | 92 | - | - |

The principal actuarial assumptions adopted in measuring the University's employee future benefits obligation are as follows:

| | 2006 | 2005 |
|---|---|---|
| Discount rate | 5.50% | 5.75% |
| Health care costs | 9.0% in 2001 decreasing over 5 years to 4.5% | |
| Other benefits costs | 4.50% | 4.50% |

## 11. Net assets invested in capital assets:

(a) Net assets invested in capital assets consist of the following:

| (000's) | 2006 | 2005 |
|---|---|---|
| Capital assets, net (note 4) | $ 169,813 | $ 161,904 |
| Less amounts financed by: | | |
| Long-term debt (note 7) | 30,176 | 83,897 |
| Deferred capital contributions (note 9) | 64,069 | 59,439 |
| Debenture payable | 83,961 | - |
| Marketable securities held for future capital projects (note 2) | (24,502) | - |
| Balance, end of year | $ 16,109 | $ 18,568 |

## 11. Net assets invested in capital assets (continued):

(b) The change in net assets invested in capital assets is calculated as follows:

| (000's) | 2006 | 2005 |
|---|---|---|
| Repayment of long-term debt | $ 2,273 | $ 3,500 |
| Purchase of capital assets internally financed | 3,292 | 498 |
| Increase in invested in capital assets | 5,565 | 3,998 |
| Amortization expense | 11,320 | 13,024 |
| Less amount of amortization expense related to capital assets purchased with restricted contributions | (3,296) | (4,203) |
| Decrease in invested in capital assets | 8,024 | 8,821 |
| | $ (2,459) | $ (4,823) |

## 12. Endowments:

(a) Investment income:

In fiscal 2006, investment income on endowments was $1,633,525 (2005 - $598,365). The 5% internally allocated for scholarship spending of $714,657 (2005 - $690,981) was added to deferred contributions. The net balance of $918,868 represents an increase in capital and was added directly to endowment net assets. In fiscal 2005, the balance $92,616 represents an investment income shortfall and was deducted from endowment net assets.

(b) Contributions restricted for endowments consist of the following:

| (000's) | 2006 | 2005 |
|---|---|---|
| Externally restricted | $ 23,683 | $ 18,786 |
| Internally restricted | 2,662 | 2,551 |
| | $ 26,345 | $ 21,337 |

**12. Endowments (continued):**

(c) Ontario Student Opportunity Trust Fund, Phase One:

Externally restricted endowments include grants provided by the Government of Ontario from the Ontario Student Opportunity Trust Fund matching program, Phase One to award student aid as a result of raising an equal amount of endowed donations.

Schedule of Changes in Endowment Balance based on book value:

| (000's) | 2006 | 2005 |
|---|---|---|
| Endowment balance, beginning of year | $ 7,717 | $ 7,569 |
| Investment income earned representing capital preservation | 163 | 148 |
| Endowment balance, end of year | $ 7,880 | $ 7,717 |

Schedule of Changes in Expendable Funds Available for Awards:

| (000's) | 2006 | 2005 |
|---|---|---|
| Investment income eligible for expenditures | $ 347 | $ 477 |
| Bursaries awarded | (291) | (477) |
| Expendable funds available for awards, end of year | $ 56 | $ - |
| Total endowment, end of year | $ 7,936 | $ 7,717 |
| Number of bursaries awarded | 220 | 415 |

The market value of the endowment as at April 30, 2006 was $9,008,649.

## 12. Endowments (continued):

(d) Ontario Student Opportunity Trust Fund, Phase Two:

Externally restricted endowments include grants provided by the Government of Ontario from the Ontario Student Opportunity Trust Fund ("OSOTF") matching program, Phase Two to award student aid as a result of raising an equal amount of endowed donations. The following information relates to the Trust fund for the period from April 1, 2005 to April 30, 2006, comparative figures are for the period from April 1, 2004 to March 31, 2005.

Schedule of Changes in Endowment Balance based on book value:

| (000's) | 2006 | 2005 |
|---|---|---|
| Endowment balance, beginning of period | $ 3,748 | $ 2,297 |
| Cash donations received | - | 467 |
| Funds receivable from the Ministry | - | 984 |
| Unmatched funds transferred to OTSS (note 12(e)) | (815) | - |
| Investment income preserved as capital | 79 | - |
| Endowment balance, end of period | $ 3,012 | $ 3,748 |

Schedule of Changes in Expendable Funds Available for Awards:

| (000's) | 2006 | 2005 |
|---|---|---|
| Expendable funds available for awards, beginning of period | $ 135 | $ 55 |
| Investment income eligible for expenditures | 169 | 88 |
| Bursaries awarded | (114) | (8) |
| Expendable funds available for awards, end of period | $ 190 | $ 135 |
| Total endowment, end of period | $ 3,202 | $ 3,883 |
| Number of bursaries awarded | 140 | 8 |

The market value of the endowment as at April 30, 2006 was $3,442,835.

**12. Endowments (continued):**

(e) Ontario Trust for Student Support

Externally restricted endowments include grants provided by the Government of Ontario from the Ontario Trust for Student Scholarship ("OTSS") matching program to award student aid as a result of raising an equal amount of endowment donations to an allocated ceiling and then increasing the grant on a three-to-one basis for amounts over the ceiling. The University qualified for matching grant for funds raised to the annual ceiling of $1,526,186 and an extended grant for funds raised above this amount.

| (000's) | 2006 | 2005 |
|---|---|---|
| Endowment balance, beginning of year | $ - | $ - |
| Cash donations received | 1,712 | - |
| Funds receivable from the Ministry | 2,287 | - |
| Investment income preserved as capital | 77 | - |
| Transfer from OSOTF, Phase Two (note 11(d)) | 815 | - |
| Endowment balance, end of year | $ 4,891 | $ - |
| Number of bursaries awarded | - | - |

The market value of the endowment as at April 30, 2006 was $5,591,360.

**13. Internally restricted net assets:**

Internally restricted net assets consist of funds set aside for the following purposes:

| (000's) | 2006 | 2005 |
|---|---|---|
| Operations: | | |
| Faculty departments | $ 4,132 | $ 2,383 |
| Other departments | 1,417 | 1,592 |
| Library department and acquisitions | 533 | 105 |
| Capital projects and reserves | 1,649 | 472 |
| Specific project funds | 3,259 | 2,586 |
| Global Budget Initiatives | 2,200 | 3,439 |
| Operating Budget 2006-07 | 3,828 | - |
| | 17,018 | 10,577 |
| Accumulated interest on offsetting investments (note 7(a)) | 2,728 | 2,390 |
| Accumulated excess of student awards over interest earned | 161 | (328) |
| | $ 19,907 | $ 12,639 |

Internally restricted net assets for departments represent cumulative unspent budgeted funds that departments are permitted to carry forward to the following year.

### 14. Commitments:

a) As at April 30, 2006, the estimated costs to complete approved capital and renovation projects are approximately $15,431,000 (2005 - $5,648,000), which will be funded by government grants, donations, operations and debenture proceeds currently held in marketable securities.

b) The following are the future minimum annual operating lease payments due over the next five fiscal years and thereafter (in 000's):

| | |
|---|---|
| 2007 | $ 1,941 |
| 2008 | 1,941 |
| 2009 | 1,941 |
| 2010 | 1,433 |
| 2011 | 908 |
| Thereafter | 1,973 |
| | $ 10,137 |

### 15. Investment income:

Investment income included in the statement of operations and changes in net assets is calculated as follows:

| (000's) | 2006 | 2005 |
|---|---|---|
| Total investment income earned | $ 1,822 | $ 1,081 |
| Investment income shortfall deducted from endowment net assets (note 11) | - | 93 |
| | $ 1,822 | $ 1,174 |

### 16. Canadian Universities Reciprocal Insurance Exchange:

The University is a member of the Canadian Universities Reciprocal Insurance Exchange ("CURIE"). CURIE is a pooling of the property damage and public liability insurance risks of its members. All members pay annual deposit premiums which are actuarially determined and are subject to further assessment in the event members' premiums are insufficient to cover losses and expenses. No assessment has been made for the year ended April 30, 2006.

**17. Contingencies:**

The nature of the University's activities are such that there may be litigation pending or in the prospect at any time. With respect to claims at April 20, 2006, administration believes that the University has valid defenses and appropriate insurance coverage in place. In the event any claims are successful, administration believes that such claims are not expected to have a material effect on the University's financial position. No provision has been accrued in these financial statements in respect of the above litigation.

**18. Fair value:**

For certain of the University's financial instruments, including cash, accounts receivable, government grants receivable and accounts payable and accrued liabilities, the carrying values approximate the fair values due to their short-term maturity. The fair value of marketable securities and investments, determined based on quoted market values, are disclosed in notes 2 and 3.

The fair market value of long-term debt is as follows:

| (000's) | | 2006 | | 2005 |
|---|---|---|---|---|
| | Book value | Market value | Book value | Market value |
| Long term debt with fixed interest rates | $ 30,174 | $ 19,506 | $ 34,892 | $ 25,286 |
| Long term debt with variable interest rates (without any consideration of interest rate swaps) | - | - | 49,005 | 49,005 |
| Debenture with fixed income rate | 93,000 | 99,369 | - | - |
| | $ 123,174 | $ 118,875 | $ 83,897 | $ 74,291 |

At April 30, 2006, the University did not hold any interest rate swap agreements. As April 30, 2005, the interest rate swap agreement was in a net unfavourable position of $3,221,272.

**19. Brock Foundation:**

As at April 30, 2006, the Brock Foundation (the "Foundation"), a Crown agent, had a balance of donations on hand of $309,592 (2005 - $327,000) which the University anticipates will be conveyed to them after year-end. The University acts as investment manager for the Foundation.

**20. Comparative financial statements:**

The comparative financial statements have been reclassified to conform to the presentation of the 2006 financial statements.

# BROCK UNIVERSITY

Schedule I – Statement of Operations by Fund

Year ended April 30, 2006
(in thousands of dollars)

| | Operating fund and ancillary enterprises | Research and student awards | Total unrestricted | Internally restricted | Invested in capital assets | Subtotal | Endowments | Total |
|---|---|---|---|---|---|---|---|---|
| Revenues: | | | | | | | | |
| Government grants for general operations | $ 77,032 | $ - | $ 77,032 | $ - | $ - | $ 77,032 | $ - | $ 77,032 |
| Grants and donations for restricted purposes | | 17,230 | 17,230 | - | - | 17,230 | 4,089 | 21,319 |
| Student fees | 66,620 | 6,798 | 73,418 | - | - | 73,418 | - | 73,418 |
| Ancillary operations | 24,689 | - | 24,689 | - | - | 24,689 | - | 24,689 |
| Investment income | 1,822 | - | 1,822 | - | - | 1,822 | 919 | 2,741 |
| Sundry | 7,611 | - | 7,611 | - | - | 7,611 | - | 7,611 |
| Amortization of deferred capital contributions | - | - | - | - | 3,296 | 3,296 | - | 3,296 |
| | 177,774 | 24,028 | 201,802 | - | 3,296 | 205,098 | 5,008 | 210,106 |
| Expenses: | | | | | | | | |
| Academic, library and other direct support | 101,150 | - | 101,150 | - | - | 101,150 | - | 101,150 |
| Administrative and advancement | 9,242 | - | 9,242 | - | - | 9,242 | - | 9,242 |
| Facilities management | 15,796 | - | 15,796 | - | - | 15,796 | - | 15,796 |
| Student support and other services | 13,610 | - | 13,610 | - | - | 13,610 | - | 13,610 |
| Research | - | 12,874 | 12,874 | - | - | 12,874 | - | 12,874 |
| Student aid and awards | - | 10,198 | 10,198 | - | - | 10,198 | - | 10,198 |
| Ancillary operations | 20,058 | - | 20,058 | - | - | 20,058 | - | 20,058 |
| Amortization of ancillary capital assets | - | - | - | - | 2,246 | 2,246 | - | 2,246 |
| Amortization of other capital assets | - | - | - | - | 9,074 | 9,074 | - | 9,074 |
| Amortization of deferred charges | 30 | - | 30 | - | - | 30 | - | 30 |
| Expenses related to interest rate swaps | 3,524 | - | 3,524 | - | - | 3,524 | - | 3,524 |
| | 163,410 | 23,072 | 186,482 | - | 11,320 | 197,802 | - | 197,802 |
| | 14,364 | 956 | 15,320 | - | (8,024) | 7,296 | 5,008 | 12,304 |
| Inter-fund transfers: | | | | | | | | |
| Change in investment in capital assets | (5,565) | - | (5,565) | - | 5,565 | - | - | - |
| Change in internally restricted net assets | (7,268) | - | (7,268) | 7,268 | - | - | - | - |
| Changes in net assets | 1,531 | 956 | 2,487 | 7,268 | (2,459) | 7,296 | 5,008 | 12,304 |
| Net assets, beginning of year | (3,750) | 2,288 | (1,462) | 12,639 | 18,568 | 29,745 | 21,337 | 51,082 |
| Net assets, end of year | $ (2,219) | $ 3,244 | $ 1,025 | $ 19,907 | $ 16,109 | $ 37,041 | $ 26,345 | $ 63,386 |

See accompanying notes to financial statements.